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FROM : AMEMBASSY, ROME

DATE: May 29, 1967

SUBJECT : CIVAIR: FIFTH SESSION OF US-ITALIAN NEGOTIATIONS IN ROME MAY 18, 1967, 17:10 PM

REF : Rome 1082

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Attached as enclosure 1 to this airgram is the Embassy's informal record of the fifth session of the resumed US-Italian Civil Air Negotiations in Rome, May 13, 1967.

The Embassy would like to call attention to the last paragraph on Page 4 of the enclosure, because we believe it to be the clearest explanation of the real reason why the Italian delegation insists on deleting the African and Australian routes from the US route schedule. This is the most straightforward statement Ambassador Capomazza has made during the negotiations on the subject. In brief, elimination of Australia and Africa would remove the "open beyond" character that, in Italian minds, stigmatizes the 1948 agreement.

REINHARDT

Enclosure: as stated

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Enclosure 1
From: Rome
A-1093

FIFTH MEETING, MAY 18, 1967, 17:10 PM

NOTE: Added to the Italian Delegation Count Gian Luigi Milesi-Ferritti

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Ambassador Capomazza: Mr. Assistant Secretary, Gentlemen, your proposal tabled yesterday has received, of course, most serious consideration on our part. I think I would fail to show my usual frankness if I did not say openly that I found them deceptive, illusory, and containing an element of anti-climax. I will explain why. This explanation is essential because we have tried to have all the points you made as clear to you as they can be. Let me speak first on the substance of your proposals - that is of their merit. Secondly, I will speak of the form - of the procedure - of the way the proposals were brought about. That is to say, the way in which they were tabled yesterday.

Let us go back to our original proposal of a reciprocal route exchange. I'd like to take up Italian document No. 5 aga in. This Italian document No. 5 has in our mind two principal aims. The first, is to re-establish in our air operations an equilibrium that has been lacking in previous operations; the second aim is to sanction the principle of reciprocity, that is to say a reciprocity of exchanges, of benefits which, while not primarily visual, has nevertheless some sort of visual reciprocity connected with it. This is because, although visual reciprocity has been regarded as somehow unimportant, we notice that you and your new suggestions for your own routes include additional cities in Italy because, au fond, it looked better. The US has never denied the soundness of reciprocity. But what you have done is to put a dollar value to the difference in this disequilibrium, in order to minimize our claims. This mercantile method has been greatly aggravated because of the flexibility of the route schedule proposed for us, compared to the extreme flexibility of the route schedule proposed for you. So it is increasingly clear that after three months of negotiations, we are now discussing only our route schedule - what points we have to have and what points we do not have to have. While we see on the other side of the table here a large number of boxes, and we are like children looking at the boxes the magician has and wondering what is going to come out - a snake or a dove.

I would like to analyze Italian document No. 5. We had said that compared with only two Italian lines operated to US points - one to Boston and New York, and one to Chicago, we counted seven lines coming from various points in the US through intermediate points to Milan and Rome (since Turin and Naples have never in fact been operated). So in spite of the fact that you moved from many points in the US we have not been able to have reciprocal rights. I have emphasized these many points even though we have a quarrel on this, because I do think it is an enormous, colossal advantage to arrive at Rome from eight or more points. Thus, geography favors the US in air operations.

Second, we presented Italian document No. 5 in an effort to break a deadlock, and in which we have tried to match operations - what we ask for us and offer to you - in order to get the negotiations moving. Then we looked at your operations

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beyond Rome and saw that after coming to Rome you were fanning out in the Middle and Near East to many points, Athens, Cairo, Tel Aviv, Istanbul, Ankara, Beirut, Tehran. We thought, in order to attain this famous reciprocity we should have lines to permit us to fan out. Where? We thought toward Central America and later to South America and presented a route that is marked 1D in Italian document No. 5 in which, through intermediate points in the US, we move on along these lines, always with the possibility of leaving out points. So we thought of Beirut, New York, Atlanta, Houston, Mexico, Panama. Later we went on to be more precise; we dropped Houston, and to make things easier said we would go to Atlanta-Mexico - knowing that Dallas-Mexico was difficult for you, and Miami-Panama. Then there was a third route, London-Montreal-New York-Chicago-San Francisco to Tokyo. We felt that this was a line that would balance your line beyond Rome through Tokyo and back to the US. By the way, it was not mentioned in our route request that this was a round-the-world route, but rather that it was a route terminating in Tokyo which you are already operating except to Bangkok, Hong Kong and Tokyo. We felt this gave an equilibrium, not a visual one, but of opportunity. This was our proposal in Italian document No. 5. I would say that this proposal was not unfounded because it found quite serious consideration on the part of the US delegation.

I admit that it was far from recognizing for you the same flexibility as your previous "beyond Rome" - but I am sorry to say that this was the crux of our denunciation. If you do not understand this by now we are speaking different languages. I am sorry to have to repeat this again but I remind you of my argument of the rope that is pulled much too tight and what a blunder it was to put us in a position to be forced to have to denounce. I would rather pass over this. This is not a tribunal seeking to attribute blame but is rather the meeting of two delegations of friendly countries who are hoping to establish a friendly cooperation even in the air transport business, as we have done in so many other fields of human activity.

Let me look at the substance of the proposal tabled yesterday. Later I will speak of the history - the form - that has created an anti-climax. Your proposal was articulated as follows: we were offered three routes: first Italy via Portugal and the Uk to New York; second, Italy via Boston to Chicago; third, Italy via Montreal and Los Angeles and beyond to Tokyo and beyond to Hong Kong-Thailand-India-Pakistan-Iran and back to Italy. Do you mind if I quote, from the excellent record our Miss Metcalf keeps, what the Assistant Secretary said:

"I would like to say a few words about these routes. First, we have tried generally to respond in routes one and two to the structure and demands you have suggested. Specifically we have linked Boston and Chicago because that is what you asked for and because we understand that if you use Montreal on a route to the West Coast you cannot use it any longer for Chicago. We have not included all the intermediates you suggested. At one time, in discussing your routes, you spoke of France as a possible intermediate to the US and we would be prepared to add it to route one or two if that is your desire. With respect to the route around the world, we have set it up in a manner you

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"indicated it would be operated: a route around the world from the West Coast of the US to Japan and using points now served beyond Japan to Italy. I have named today only those points West of Japan that you now serve. We would, of course, be prepared to add points West of Japan that a carrier would need, operating that far from home, in order to make the route viable for a long term airline operation.

"I want to stress that the package we are proposing has a value in revenues earning capability of over $70 million, and there is no way we can structure our routes that would permit us to match that. I underline that because it indicates the limits to which we have gone and beyond which we cannot go further in meeting your demands.

"I would like to say a few words about how we see, and how airline people generally see, the munificence of the round-the-world route we have put on the table. It does two things in the broadest sense: first it puts Italy in a very, very exclusive and elite club of airlines with round-the-world route rights. There are today maybe five that operate around the world in one fashion or another. Of these, only three (a Japanese, an American and a British airline) operate on the most lucrative stretch of the route from the West Coast of the US to Japan."

(I'd like to mention <u>en passant</u> that although this is not very important, we do have a right to operate to Paris, and we could keep operating through Montreal to Chicago as we do today.)

Against this offer, the US maintains its enormous, flexible route schedule as it appears in US document No. 4, which almost covers the whole world. It also comprises the two routes beyond Rome to Africa and Australia, that, if I say we are reluctant to grant, I am committing a gross understatement. I have explained to you how disruptive they would be especially if they were operated under Bermuda principles of the US carriers.

Now, let us follow a mathematical method and imagine that we accept this proposal with - do not forget - very important strings attached: full Bermuda principles for passengers and cargo and multiple designation. Then, what would be the practical result? All we would gain in fact would be Los Angeles. You know the long story of our Los Angeles operation which we got in 1960. We could operate to Los Angeles quickly - by next November - but when could we operate to Japan? I have often emphasized that in any case Alitalia would not be able to operate to Japan until 1969 or 1970. This must have been said by me fifteen times and I am sorry to be boring. But we are told that this package, including this route, which can only be operated after three or four years, is worth more than $70 million. At this point I must tell you an excellent idea that General Santini has had. He says, why don't we give up all of the routes, and ask for a cash payment of 70 million instead.

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Seriously, you know there is a certain expectation in our public opinion that out of these negotiations Alitalia will get something. As it stands now Alitalia would only get Los Angeles plus a first class visiting card for a subsequent route to Tokyo. Even a schoolboy could understand that we were not coming out very well in this, and we think the people would be deceived. What would be written in the technical press, or in the Leftist press?

Further, we are reminded all the time about your Congress, We have the greatest respect for your Congress but we also have the greatest respect for our Parliament. I hesitate to think what the reaction would be there if we accepted a deal whose operation would be postponed five years and with all those strings attached. Then perhaps General Santini's suggestion would be the best. This is why I spoke of anti-climax.

You will understand my bitterness better when we come to discussing the form of your proposal. You will remember that we were supposed to meet last Monday, May 8, but the President of your delegation suggested that we call off the meeting, so that he and Mr. Minetti and I could have a little talk. I always enjoy having chats with your distinguished chairman. I was alone because I did not want to embarrass the Assistant Secretary. In fact, he came out with a package deal. My reaction was rather positive because it was the first positive offer we had received and it did constitute a base for an approach to solve the fundamental problem dividing us: that of a route exchange. Then, when I started thinking over the proposal by myself I thought I could not trust my memory so I asked Mr. Loy and Mr. Minetti for lunch and brought along my colleague, Counselor Varalda, whose English is far better than mine, to confirm all these points. Varalda then wrote a small memorandum that confirmed point by point what I had understood. I hope I am not committing a gaffe by bringing out in this form the substance of the discussions I had informally with you. In summary, the US delegation thought we could move forward if the Italians could consider this proposal: Alitalia would get three new points: Los Angeles or San Francisco from Montreal, Atlanta, and Miami. In all, we would have, counting those we are actually operating, six points out of the eight we have asked for, with the first-route schedule we sent through our Embassy in Washington. The US delegation was ready to concede a beyond route through Atlanta or Miami to Mexico and to Panama. There was some uncertainty about t e structuring of the route to South America but Mr. Loy said that South America in his route proposal included Mexico.

What remained paramount in my mind was our idea that the US request for routes to Africa and Australia beyond Rome must be eliminated. I explained that to the Assistant Secretary and to Mr. Minetti, and on repeated insistence on my part the Assistant Secretary confirmed that the US delegation would be ready to renounce these two routes to Australia and Africa. As you know, this renunciation meant as much to us as any positive contribution in routes as you could have made. The spirit that prevailed over the 1948 agreement can only be modified if we can put a limit to your flexibility beyond Rome, and the directions that upset us most are the directions towards Africa and Australia. We could give flexibility to the remaining direction. We have said that we are ready to accede to a

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reasonable expansion of your operation but not to the renewal of beyonds that reinforce your position of superiority. Whoever thinks that we can come out with less than this is making a great miscalculation - at least as great as the miscalculation that led to our denunciation. This is why we are disappointed with your new proposal despite the visiting card.

We consider the proposal inadequate in substance since we will not be able to operate it fully until four or five years have gone by. We need something today, and all we get today is Los Angeles. You say the Pacific market is colossal, and we agree it is, but you also admitted that in four or five years the market would be invaded by 20 new companies, mostly US (but perhaps some others). In admitting this you have admitted that the market will shrink for Alitalia. What happens when 20 new carriers invade a market? Is it still a great privilege to have it? I will admit it would be today but we cannot take it home today. I don't want my words to be misunderstood. We are not unaware of the richness of the market but it should not be over-valued for the sake of negotiating. You are a great salesman, but if your consignments are only to take place a few years later, you cannot ask the same price.

Let me now say a few words about the procedure - the form. I think these negotiations are difficult in themselves and full of ambushes. I should like to make them as simple and rational as possible. But if we keep changing the cards, going one way one day and another way the next day, we will get nowhere. Let us follow one rational method. The proposal you tabled yesterday in spite of the importance of the dollar value and the richness of the market, has created a lot of confusion. Instead, the approach of May 8 and 9 was correct. You made some proposals and it brought from me a written answer. Why did I give a written answer? People may have thought that I was incorrect in this, but I thought I was in the right. I thought it would be worthwhile to reflect our seriousness in discussing the proposal. I thought if I answered point by point with great frankness it would be helpful in paving the way to an agreement. In doing so, I also trimmed away our previous proposal: I took away Houston, I took away San Francisco, and I said we were ready to structure our routes towards Central America. I think that the proper way for us to proceed now would be to proceed from that document. Not because it was my document, but I think that if you give an answer to that package, and we clear up what must be cleared up in your schedule, then we can keep our feet on the ground and move the negotiations forward.

At this stage, which I consider to be a critical stage of the negotiations, I don't want to say anything about the conversation in general terms which Secretary Rusk had with our Ambassador Fenoaltea, except to acknowledge our recognition that this interview gives political importance to the present negotiations. We share with him the meaning of this political importance - but that is why, as time is running short, we should follow a straightforward path rather than lose ourselves in maneuvers and counter-maneuvers. I simply do not know what you have in mind. When I look at the differences involved in the negotiations, and the responsibilities I so unwittingly assumed, I try to be honest and in the right, bedause should worse come to worse - and I would

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like to exclude this out of my mind - I would like to be sure of having taken the rightful position. We have kept these problems out of the press and we have behaved as good friends should. We feel that as your expression goes we should wash our dirty clothes in the family. But I don't know whether we can much longer keep these dirty clothes out of the public view.

Let us take up your first proposition and our counter-proposition. I don't want to exclude anything, but I don't want to be lost trying to include everything.

Mr. Loy: Mr. Ambassador, Gentlemen. You have several times during these conversations indicated that at times I am not quite as clear as I might be, and I must say your remarks this afternoon lead me to believe you are more right than I suspected. I will try and correct that.

Let me first turn to some matters of the conversations we had last week. I did not make a proposal. I tried hard to make that amply clear. I was trying to discuss with you in what I though a frank way, some of the things that might be possible if they were of interest to you. I did not know whether in the end we would be able to deliver.

Second, in those conversations I did say that under some circumstances and with some kinds of route exchange we could renounce our routes beyond Rome to both Australia and East and South Africa. I said it and I will not deny it. I also said, however, that we certainly did not consider that possible in the context of any of the route grants we were discussing, much less in the case of those you had in mind.

Third, I never said twenty new companies would be involved in the Pacific. Some eighteen US companies are interested and have made application but while this is not in my province, I feel it is safe to say that if any new US companies are granted routes in the Pacific, the number will be somewhat smaller than the whole of the applications.

You have also chosen to characterize me as a salesman. I did not come to Rome to sell a route from the West Coast of the US to Japan and around the world. If that route is not operable by the Italian carriers for reasons I don't know of, or is of no interest, it is not my desire to persuade you to accept it. We made the offer yesterday because, Mr. Ambassador, we understood your response to our exploratory conversations to be first a flat rejection of the kind of route formulations we were exploring, and second your explanation that the main interest of Italy in these negotiations was to make your carrier a first grade major carrier, which in your opinion meant around-the-world service. If we misunderstood, I would be happy to be corrected.

Ambassador Capomazza: No, but we do not want it without points in the US.

Mr. Loy: We made the offer because that is how we understood your response.

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You say first that your carrier cannot operate that route for two to three years. I have to admit that I cannot understand the relevance of this point. No one ever expects a route to be operated immediately. It takes at least a year or a year and a half. You say no, maybe it will take two years or not until 1970. As you have frequently pointed out, you are trying to make an agreement for a long period, and frankly I do not consider that one-half year, or a year and a half, is a matter of substance.

You also say you would have difficulty in presenting such an agreement to the public and the technical press. My guess is you would not have much trouble if you wanted to present this as a smashing victory for Italian diplomacy.

Ambassador Capomazza: In career diplomacy smashing victories do not exist.

Mr. Loy: A significant victory then. If you are willing to focus on visuality, all you have to do is extend the points on the Italian route around the world and no visual problems remain. We have a problem when we try to explain why an Italian carrier will be flying the routes between the US and Japan. This problem is inherent in our position.

Let me say a couple of words about the services East of Rome by US carriers - that is of beyond points. I have said before that if there is a particular beyond point that we need that would give you particular problems if we included it in our route schedule, we would be prepared to listen to your arguments and to consider that. The fact of the matter is that in aggregate, those points when measured by the history of our operations (which in theory are without limits) don't add up to the importance of your access to the Pacific route. This seems to me to be a quite demonstrable proposition. Let me also say that in saying this I particularly think of the fact that the growth of the market across the Pacific to Japan is largely in the future - or is to a much larger extent in the future - than the expected route between the US and points East of Rome.

As I have said, I invite you to examine General Santini's proposition - the facts of the operations of US carriers East of Rome - and compare that with a reasonable (and I stress the word reasonable) valuation of the route across the Pacific. The pattern of travel is such that US citizens in large numbers come to Rome as well as to other European cities and go beyond, and I don't see any reason whatsoever why the US Government should make an agreement that would exclude US carriers from participating in that market. If Alitalia advertises in Beirut a service to New York principally carrying US passengers, its hard to see why US carriers should not have equal opportunity at the very least to carry those passengers.

So, I don't know what your trouble is with our beyonds. You say there are too many, but unless we are playing games, we want to know the real reason why they hurt so badly.

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You alluded to the conversation between your Ambassador and our Secretary of State. Let me reiterate one thing the Secretary said: that is, our Government believes we are negotiating a commercial agreement and that imposes limits on us. I understand your comments this afternoon to mean that you are not happy we did not include, in addition the round-the-world route, access to additional points in the US and beyond to South America, and did not exclude our routes to Australia and Africa. Unfortunately, I don't find it helpful to suggest that it would be a good idea to add these points in the US and beyond to Latin America and to delete these routes to Australia and Africa. If, on the 18th of May, I haven't made it clear that we have limits to what we can give and accept, then I am afraid that I will not be more successful in making this clear before May 31. It simply won't do to say, "we would like a lot more." And I don't consider this an adequate answer to the proposition I have put on the table. I am perfectly aware that every airline would like to have more routes, but that does not necessarily make for a sound agreement. I don't think I can add much more. If you would propose to make an alternate proposition that would delete the round-the-world route, we would consider that or any other proposal. But if your proposal is other additional points in the US (or any of them) or any additional beyonds, I don't see how we can do it because we have already unbalanced the agreement in your favor as it is. So I don't see how I can deal fruitfully with that response.

Ambassador Capomazza: Gentlemen. I'd like to say, to point out a few things, to make a few remarks on what the Assistant Secretary just said. First of all, about our reluctance to let you go from Rome to Africa and Australia. Considering that we have great difficulties in making this agreement and have been discussing it already almost three months, don't you think the US delegation could convince the US carriers that they could go to Africa through Athens or Cairo, or to Australia as they now do? Why do you want to gain this point, when we are trying to reach an agreement? The past agreement was in your own words so cancerous, and after all your carriers can go to these places so many other ways! Besides, you say you have assessed the values of these operations and they have very little dollar value. Why insist so much? Why not make it easier for us?

When you compare our line through the Pacific with your lines through Australia and Africa perhaps in dollar values you are right. But ours through the Pacific would not disrupt anything, while yours would disrupt our services. Our line is a drop of water out of the Pacific, a few times a week after a few years. You give such a high price to our round-the-world operation. Will you tell me why you should be able to make a round-the-world flight through Rome while we cannot make it through the US? You have said that visuality should not govern our agreement. Why was it that the other day you introduced three points in your route schedule to Italy? We said we had no objection. First, you want no visuality but when you want to have points in Italy even if you do not operate them - two of these you will never operate - but you would want them to show to the public. All right, then give us five points too!

Another thing, when we ask for a line we are asked where we want to go - how

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we want to structure it. But we cannot get this from you. So please structurize your routes. Perhaps, as I said, we are ready to give a certain flexibility, but only a certain flexibility. I have made clear the points I need - I have not kept them back until later as you have.

You have made the point that in an agreement like this which is for 20 years or so, it is not of great importance whether we begin operations one day or another. But in the weeks gone by you warned us that the London-Miami route could not be operated for three years. So it is clear that dates can be appended to an agreement. That one was not important, but now ours across the Pacific which will not be operated for three years is of tremendous importance. I could go on like this, but it will not move us forward very much. I think I will say again that if we want to make headway, we have two papers to work from: your proposal to me of the 8th, and my letter to you.

I realize that your proposal was yours and not that of the US Government, but I understand from the words of the Secretary that it is you who must make the agreement. The Secretary cannot have the time or the detailed knowledge to do this himself. So if we proceed from your proposal, which I admit was not official but was the first serious proposal, we may be able to move ahead. And I recognized this by answering in writing to save time. That is all I can say at 7 pm on the 18th of May - and mind you I am willing to sit here until ten o'clock.

Mr. Loy: Mr. Ambassador, there are a couple of things I might say in response to your comments with respect to our proposal which includes routes beyond Rome to Australia and Africa. You are of course correct that we can reach these places and do so by other means. I might in passing say that there are other ways to reach Tokyo, and one of them is some 4,000 miles shorter than the one we are proposing.

You ask, if our African and Australian routes have so little value, why don't we drop them? I guess my answer is that first, we want US carriers to be able to serve US travelers wherever they go, and second that - I don't think at this late date you understand this fully - I am saying that you have the better of the agreement even with those routes in it, and I am in no position to worsen that ratio by taking these things out. You say our services will be disruptive, that that is in fact the difference between our proposal in this respect and your request to go across the Pacific. I must read that, that if we serve those routes we might carry some passengers you might otherwise carry. It is certainly also true that if you serve between the US and Japan you would carry passengers that otherwise we would carry. I would guess as a matter of airline operations that neither your carriers nor ours on these respective routes would find that competition so terrible that it would lead to their demise. I might say that in 20 years of operations to and through Rome I am not aware that our carriers have endangered the financial or operational health of the Italian carrier. So I have to read "disruptive" as "additional competition" - that is certainly true. I can't quite see any sort of doctrinal reason why one kind of service is beyond the pale of the imagination while the other is a sort of expected right of Italian carrier.

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You have alluded to the private conversation you and I had which touched on the subject. Let me make clear again what our position is: We said that these routes, like other specific routes of the US. were negotiable. But certainly in the context of a package such as we propose they have to stay.

The second point you made is that we won't structure our routes. I must say you don't give us much incentive to do so. Firstly, I don't know what troubles you, except that we have too many of them. Secondly, I said if there is a particular point which disturbs you, that we might want to serve, we would consider that. But thirdly, we are faced with the proposition that we have made an offer that gives you a better deal than we have. Your answer is, give us a great deal more and cut yourselves down. I don't intend to do this and I guess the talks are going to fail if I can't convince you of this. The US cannot, out of a simple act of friendship, make bad deals. If this is simply an exercise in give me more and you take less, I don't think it is a game we can play. Quite frankly, I think you have hypnotized yourself into the unreal position that somehow values don't count. You seem to believe that we can add four points in the US and two beyond if you ask hard enough and you ask often enough. But the answer is no. I don't know where this notion arose. I have been trying to kill it since January but I don't think it is dead. Excuse me if I try once again to lay it to rest. If you won't believe me, if I say we can't unbalance this agreement any more in your favor, we might as well quit.

Mr. Ambassador, you suggest that we blundered because we seem to in all directions at once. This may be. But what we have tried to do is find ways to make an agreement. We thought we had exerted ourselves to the limit and given you what you want. I don't know if we have or not. But I don't think it would be wise for us to make any more propositions and blunder again.

You started this discussion by saying the Italian carrier was disadvantaged because it did not have equal opportunity under the agreement, and while our carrier had beyonds your carrier had no beyonds. You sit right now in a situation where you have to a huge degree added to the earning capacity of your carrier under our agreement, and you have on the table a beyond right of immense value, making this carrier an around-the-world carrier through the US. I don't know what your standards are or what your goals are in these negotiations, but if they are higher than that I suggest that they are a bit unrealistic, and you have been misled about what is possible and what is impossible in these talks. I don't think I can add to that.

General Santini: Mr. Loy, as you know I have taken almost no part in these talks. But perhaps it would be helpful if I would explain what it is that we are looking for. We are looking for a balance, and trying to decide what to put on each side of the scale. For example, if we put for you a route around the world, on the other side of the scale we want to put the same for us. Can you say whether or not that would be in balance? You have asked us what we want. The Ambassador has answered you: we want equivalence of routes. On the scales the number of

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points on one side balance those on the other side. You have complained that we have asked for two new beyond routes to Mexico and Panama but we think these are balanced on your side by all the other points in the Mediterranean basin. This is what I wanted to say to explain briefly the equilibrium we are seeking.

Mr. Loy: General Santini, without in any way meaning to be impolite, my short answer is that what you propose is not a balance. I guess I have said it before but there are very significant differences in aeronautical terms between the US and Italy. One is geographical; the other is (and these are related but not the same) the value and composition of traffic that is involved in granting beyonds. If at this late date we cannot recognize that, then we are in very serious difficulties. I mean, you can say Cairo is a point beyond Rome as Tokyo is a point beyond the US, but if that is your idea of balance I don't think a deal is in the making. If we are to add Beirut and you add Panama, there is no deal. If we are counting points and ignoring values, no deal is in the making. I will state in all honesty that what we have on the table is not balance - but is imbalance in favor of Italy. I don't really see how that can be subject to question by you. Back in Washington, you told us a bit of what you thought was historical experience in 1965 of our respective carriers. We were prepared to work from these figures and we have, but apparently that was the last time anybody on the Italian delegation looked at them. Because none of your proposals to make a fair agreement seem in the least related to the figures you put on the table in Washington. We know and you know what is the commercial importance and the significance of our rights beyond Rome. We went through rather substantial trouble to compute them, not in the way we usually do but in the way you do, because we did not want to repeat our experience of 1965 when our evaluation was made on different assumptions from yours and resulted in substantially different conclusions. That was not in our interest to do, in terms of the results we wanted. And I just have to say that contrary to the world of Alice in Wonderland, saying something is in balance does not make it so.

I don't really object, nor do we consider it improper, if you gentlemen try to get just as much as you can. You would not be serving your country well if you didn't. But at this stage to operate in a world of unreality is to court disaster. I say that if your answer to our proposal of yesterday is "OK, we'll take that and you add Atlanta, Dallas and routes to Latin America" you are operating in a world of unreality. And I just think that at this stage of these talks we had better not misunderstand each other.

I will stipulate to the fact that you'd like to have more routes to the US and beyond. But I propose that if our proposal of yesterday stays on the table we can't do that.

Ambassador Capomazza: Gentlemen, it is quite clear to me that what makes our agreement difficult, our reaching an understanding difficult, is the fact that we always seem to be speaking two different languages. Of course, we are dis-

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cussing a commercial agreement in a sense, but this notion which has become a philosophy with you, that you have to carry your passengers around the world and have a bigger share than other carriers in that market, is something we cannot agree with. Unfortunately, this philosophy was totally debased by your own ancestors. When Oliver Cromwell passed the Acts of Navigation in England in 1651, what was the country that stood strongest against them? Your 13 colonies, which in fact based their independence against the Acts of Navigation. Now the roles are reversed and you are trying to impose on 70 countries your version of the Acts of Navigation. The idea that you have the passengers and therefore can control how they are carried around the world is not going to be acceptable to anyone.

Then, you think always in terms of the old agreement and we want a new agreement. We do not believe that the new agreement must be made purely on dollar value.

I have an alternative proposition to make since we seem to be getting nowhere as we are. Let us consider it, think about it overnight. Let us make a third and fourth freedom agreement in full reciprocity between the US and leave out the beyonds. We can build the agreement, taking as example the US-UK agreement. This is my alternate suggestion. If you think you can't stretch your philosophy and accept reciprocity we will have to find another way. But, following the example of the 13 colonies we refuse to follow the theory of the Acts of Navigation. I propose that you think over what I said. This is not a proposal made ab irato as we say in Latin. We have considered it often in trying to find a way to get around our problems.

Reciprocity would be respected. You won't go beyond Italy and we won't go beyond the US. There are so many other countries your airlines can continue from anyway. They can go on from Athens, from Madrid, from Paris - and there won't be the problem of us using that very rich Pacific market in order to go beyond the US. And even if perhaps - perhaps - our Pacific route would have more dollar value, it is strange that US operations are always more acceptable no matter where they go. And we can get nowhere in discussing dollar value, after the clear example of the present all-cargo operations, in which you make $2 million less than we do with the same five weekly services. That proves we cannot accept dollar values as a measure of fairness.

It is evidently very important for you to go to Australia and Africa through Italy, and this obviously cannot be measured in dollar value alone, since you yourself admit that the routes are of so little value.

Under the system that I have proposed no one will be offended, no one will be hurt. You will be able to stick to your philosophy and we will stick to ours. If you agree, let us adjourn until tomorrow and meet in the afternoon. You will have more time to think over the proposition and we will have more time to articulate it.

Mr. Loy: Mr. Ambassador, let me first correct a misimpression that seems to exist.

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We do not say that because we provide the bulk of the traffic we must carry the bulk of the traffic or even that we must have an agreement which reflects the fact that we can provide the bulk of the traffic. I think it might be a quite reasonable position, and in fact it has been suggested to us forcibly from time to time by our industry.

I don't really see how you can make an argument out of this that really does not turn around on you. The fact of the matter is that under the proposal we have put on the table, we estimate Alitalia will transport 290,000 passengers per year, of which only 65,000 would have originated in Italy. By far the largest part of the rest would have originated in the US.

No, Mr. Ambassador, the fact is just the opposite: far from carrying anything like the number of passengers we provide, we now carry less than half, and this agreement would not improve the matter. I don't think that argument will wash. If Italy were being given 15% less dollar value because we provide the bulk of the traffic, you would have an argument but that simply is not true.

Ambassador Capomazza: This goes back to the quarrel of the way stopovers are counted. Your statisticians use this as an artifice to count a certain amount of passengers as primary justification of US traffic. But for heavens sake, let us not start another quarrel on statistics.

Mr. Loy: Mr. Ambassador we don't need to. Contrary to our best judgment, we have counted passengers and dollar value not our way, but your way. And in case the point is lost, far from demanding excess value because we provide the passengers, we are proposing excess values for you. As for cargo, I have never introduced any cargo figures nor have I made any effort to introduce cargo figures, so let us wipe this off the table.

I don't think we have a statistical dispute. Our dispute is that while since the time of the Phoenecians and earlier, commercial arrangements have been based on monetary values, we are evidently supposed to use an artificial system, as though we were counting buttons. I don't know how to make a commercial agreement without using money.

We might as well understand that money is what both of us are talking about. I am prepared, in any detail you want, to show to you that the earning capacity in dollars of your carrier under our proposed agreement is greater than that of ours. Why? Just analyze what is the market we were talking about. What is Rome-Beirut, Rome-Tehran, Rome-Bangkok and US-Japan as a market? US-Japan is a vastly greater market than the entire market to the East of Rome, by several fold. We are talking about the possibility of earning revenues and I don't think there is all that difference in our language.

When Alitalia publishes its financial statement, it talks about money. I admit

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that we have in our route proposal, in addition to money, taken into account non-monetary factors and this we have done in order to meet Italian desires and to reach agreement. You have told us that you want to fly around the world and we have tried to meet that need even though it imbalances the monetary part of the agreement in your favor.

Mr. Ambassador, at the end of your statement you made a proposal. I guess I'd like to understand it and then find out if it is serious. If so, we will, of course, consider it. You suggest that we pick a point in Italy and you give us a point in Italy and we pick a point in the US and we operate between them. I will say here this not necessarily in the public interest. In any case, there would be no intermediates and no beyonds. Well, I will start out by suggesting we both pick our capitals, Rome and Washington.

Ambassador Capomazza: Oh no!

Mr. Loy: Why not? What could be more reciprocal?

Ambassador Capomazza: We are thinking in terms of third and fourth freedom traffic between points in the US and points in Italy. The same as with your agreement with the UK. We would not trade Rome with Washington but Rome with New York. These points can be discussed. If you want intermediate points we are willing, if you only want direct flights we would only have direct flights. In our view it would not be an ideal arrangement, but owing to the circumstances it is at least fair and no one could protest. It has a presentation.

Mr. Loy: Could I ask what the rest of the agreement would look like?

Ambassador Capomazza: I put out the idea at the last moment but we are ready to discuss it in detail. However, we can't go into that now. It is an alternative, a sad alternative, but perhaps better than no agreement at all. Don't ask me too many things tonight. We will give it the most serious consideration.

Mr. Loy: I'll agree it does not sound ideal, but the proposal is certainly worth considering. We will transmit it and consider it. Maybe we ought to leave it at that. I ought to add that I don't know how we can give an answer until we understand whether it is to be operated on Bermuda principles with multiple designation or not. As it is, I don't consider it a full proposal. I don't see how we could accept that without those two factors.

Ambassador Capomazza: This is part of the agreement to be discussed.

Mr. Loy: You make half a proposal.

Ambassador Capomazza: At this time of day you are lucky to get a quarter proposal. Give us time to think about it.

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Mr. Loy: We'll consider it among our delegation and meet you tomorrow and hear you further. Is that it?

Ambassador Capomazza: You say the time, tomorrow or the day after. Somebody has just now rightly suggested that it would be a waste of time to present this proposal unless you think it may be worth considering. Do you think it would be a way out?

Mr. Loy: I think, Mr. Ambassador, at this stage that I can only say, since we have not really heard the proposal or had a chance to think about it, it would be only fair to say that if the proposal were to involve frequency limitations or abdication of multiple designation, I doubt very much that we could consider it, but with those factors there we have to consider it.

Ambassador Capomazza: You know we are not thinking about predetermination. Let us discuss points and routes. If these are satisfactory, then we can accept Bermuda principles. We have to think it over a little bit. But I am not thinking in terms of saying you fly three times a week and we do the same. And perhaps there could be intermediate points.

Mr. Loy: I have reacted about as much as I can. Let us sleep on it and meet you tomorrow in the morning or in the afternoon. We are at your disposal.

Ambassador Capomazza: Five o'clock?

Mr. Loy: Five is fine.

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